

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 INT-08 SCEM-02 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01

SS-15 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 RSR-01

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R 241450Z JUL 73

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 6565

INFO AMEMBASSY COPENHAGEN

AMEMBASSY MOSCOW

AMEMBASSY OSLO

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E.O. 11652: N/A

TAGS: ERNG, EIND, FI

SUBJECT: PLANNED THIRD REFINERY HITS SNAG

REF: STATE 087306

1. BEGIN SUMMARY. ON JULY 12, BANK OF FINLAND "FROZE"
NESTE OY'S PYHAMAA REFINERY PROJECT WITH A STATEMENT
REQUESTING "MORE ACCURATE COST ESTIMATES", AND
DIRECTING NESTE TO EXAMINE OTHER ALTERNATIVES. THE
SORSA GOVERNMENT, APPARENTLY TAKEN BY SURPRISE,
RECALLED FIVE OF ITS MEMBERS FROM VACATION AND WENT
INTO A HUDDLE. THE PRIME MINISTER EMERGED ON JULY
19 WITH A STATEMENT TO THE EFFECT THAT THE GOVERNMENT
WOULD STICK BY ITS EARLIER DECISION TO LOCATE THE
REFINERY IN PYHAMAA, AND THAT THE CURRENT AFFAIR IS A
DISPUTE BETWEEN THE BANK OF FINLAND AND NESTE. WORKING
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LEVEL SOURCE IN THE BANK OF FINLAND, HOWEVER, CONFIDENTIALLY

INFORMED EMBOFF THAT SURPRISE DECISION WAS TAKEN AT THE LAST MINUTE AT THE TOPE LEVEL, AND THAT "MORE ACCURATE COST ESTIMATE" REQUEST WAS ONLY PRETEXT. END SUMMARY.

2. AFTER PROTRACTED POLITICAL HORSE-TRADING, THE DECISION WAS TAKEN LAST FEBRUARY TO LOCATE FINLAND'S THIRD OIL REFINERY AT PYHAMAA. THE CHOICE WAS DICTATED BY CONGRUENCE OF INTEREST BETWEEN THE CENTER PARTY--WHICH WANTED TO CREATE JOBS OUTSIDE OF THE SOUTH-FINLAND AREA-- AND THE ENVIRONMENTALISTS SPEARHEADED BY THE SWEDISH PEOPLE'S PARTY--WHICH OPPOSED A SOUTHERN LOCATION ON THE GROUNDS THAT THE RISK OF ACCIDENT WAS TOO GREAT IN VIEW OF THE NUMBER OF PEOPLE LIVING ALONG THE COAST. PYHAMAA WAS ACCEPTED AS PART OF AN OBSCURE PACKAGE WHICH ALSO FIXED THE LOCATION OF A STEEL MILL AT TORNIO AND THE CONSTRUCTION OF A NEW PULP MILL--SITE AND OWNERSHIP TO BE DETERMINED.

3. WHILE POLITICALLY ACCEPTABLE, PYHAMAA WAS THE LEAST DESIRABLE LOCATION FROM A COST-EFFECTIVENESS POINT OF VIEW, THE NESTE ACCEPTED THE DECISION RELUCTANTLY WHEN THE GOVERNMENT AGREED THAT THE STATE WOULD FINANCE THE CONSTRUCTION OF ACCESS ROADS AND THE DRDGING OF A HARBOR CHANNEL. SINCE THEN, PROGRESS HAS NOT BEEN OVERWHELMING. THE PLANNING FOR THE ACCESS ROAD WAS HELD UP OVER A JURISDICTIONAL FIGHT BETWEEN PYHAMAA'S NORTHERN AND SOUTHERN NEIGHBORING COUNTRIES; BY COMPROMISE, ROADS WILL NOW BE BUILT THROUGH BOTH. FURTHERMORE, NESTE HAS NOT BEEN ABLE TO REACH AGREEMENT WITH LOCAL LANDOWNERS ON COMPENSATION TO BE PAID.

4. ON JULY 12 BANK OF FINLAND DIRECTOR MAUNO KOIVISTO ANNOUNCED THAT THE BANK WOULD WITHHOLD PERMISSION FOR NESTE TO BORROW FOREIGN CAPITAL UNTIL THE COMPANY HAD INVESTIGATED THE FOLLOWING: (1) POSTPONEMENT OF THE THIRD REFINERY PROJECT, (2) PURCHASE OF REFINED OIL PRODUCTS FROM ABROAD (E.G. THE SOVIET UNION), (3) ENLARGING THE REFINERY AT SKOLDVIK ON THE SOUTH COAST, (4) THE MOST PROFITABLE LOCATION OF A THIRD REFINERY, AND (5) SUBMITTED A REVISED CALCULATION OF THE COST OF THE PYHAMAA LOCATION. THE PRESS, NESTE AND THE GOVERNMENT EXPRESSED SURPRISE AT THIS TURN OF EVENTS. ALTHOUGH THE GOVERNMENT IS TECHNICALLY NOT INVOLVED, (THE BANK LIMITED OFFICIAL USE

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HAS THE LEGAL RIGHT TO HOLD UP THE FOREIGN CREDITS NECESSARY FOR AN ENTERPRISE OF THIS SIZE) IT FELT COMPELLED TO MAKE AN ANNOUNCEMENT. THE ANNOUNCEMENT WHICH WAS MADE ON JULY 19, WAS THAT THE QWKGOVERNMENT STUCK BY ITS EARLIER POSITION, AND THAT THE CURRENT DISPUTE WAS BETWEEN THE BANK OF FINLAND AND NESTE.

5. THIS MAY NOT BE ENTIRELY TRUE. THE DECISION TO SUSPEND CREDIT WAS MADE ABRUPTLY AT A MEETING OF THE BOARD OF MANAGERS,

SURPRISING WORKING LEVEL OFFICIALS AT THE BANK, WHO HAD ALREADY ASKED FOR AND RECEIVED UPDATED COST INFORMATION. A WORKING LEVEL CONTACT STATED CONFIDENTIALLY HE WAS TOLD THAT THE REQUEST FOR MORE PRECISE COST INFORMATION WAS A PRETEXT, AND NOTED THAT THE INDEPENDENT REVERSAL BY THE BOARD OF MANAGEMENT OF ITS PREVIOUS POSITION WAS NOT BASED ON ANY RECOMMENDATION COMING FROM LOWER DOWN; IN FACT, LETTERS HAD BEEN ALREADY PREPARED FOR SIGNING WHICH WOULD GRANT NESTE THE PERMISSION TO BORROW ABROAD. AFTER THE BANK'S ANNOUNCEMENT, THE ASSISTANT MANAGING DIRECTOR OF NESTE POINTED OUT THAT THERE WOULD BE NO TECHNICAL PROBLEM IN BUILDING THE PLANNED REFINERY AT SOME OTHER LOCATION.

6. IT IS NOT YET CLEAR WHO IS PLAYING WHAT GAME AND FOR WHAT PURPOSE, BUT THERE IS POTENTIAL FOR AN UNRAVELLING OF AN AGREEMENT WHICH WAS THOUGHT TO HAVE BEEN SEWN UP. AS FAR AS THE GOVERNMENT IS CONCERNED, IT CAN ONLY REITERATE ITS PREVIOUS POSITION--THE CENTER PARTY HAS BEEN STRONGLY IN FAVOR OF PYHAMAA, AND THE SWEDISH PEOPLE'S PARTY HAS EVEN THREATENED TO WITHDRAW ITS MINISTERS IF THE REFINERY IS BUILT AT AN UNACCEPTABLE LOCATION. THE NEXT MOVE IS NOW UP TO NESTE, WHICH HAS PROMISED TO COME UP WITH REVISED CALCULATIONS AS SON AS POSSIBLE.
KREHBIEL

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